The potential impact of foreign direct investment on emerging economies

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Index of Terms

Foreign Direct Investment (FDI) take place when the organisation decide to invest directly in the business process or the production process in foreign country.

The FDI requires the location and other facilities to carry out the operations.

Foreign subsidiaries: These entities are known as the business units available in the foreign countries and providing facilities.

Host country: The host country is the country in which then foreign business takes place and operates. This process takes place through formal Chanel.

Outflows/Inflows of FDI – This indicates the investment that enters into the country or flows out.

Foreign Portfolio Investment: The public involvement in the business process that take place through individuals and other business units.

Topic Background

The potential impact on the foreign economies are various in the nature and in the context. the foreign direct investment on the hand providing the benefit to the local consumers by offering them cheaper prices where as damaging infant industry that cannot compete the prices of the multinational entrepreneurs. Therefore the impact over the economies is strong if the economies are not strengthening strategically. The emerging markets such as Russia, china, India and Brazil has significant increased significantly in the

recent times. Thus all the organizations across the globe are trying to enter in those markets and want to achieve long term benefits.

Research Problem

The foreign direct investment (FDI) causes several impacts over the economy of host country. The Financial injection in the foreign country certainly benefits the economy in positive way but also there may be several implications on the infant industry. This research will highlight the implications of the FDIs involvement in foreign countries.

Research Question

What are the potential impacts of foreign direct investment on emerging economies?

Aims and Objectives

To investigate the Impact of FDIs on emerging economies

To analyse the FDI entrepreneur decisions to invest in the foreign economies and what remains the rationale behind those decisions.

To investigate the impacts on the selected sectors in which the investment is made.

to investigate the impact of financial inflow made by FDIs, in the foreign economy.

to investigate the impacts of FDIs in the host economies and on the industry

To analyse the FDI’s strategies to global market place

To analyse the way through which the sectors are selected for the investment purpose? Rationale behind the selection of business sector.

what technological advantage are gained through foreign investment

To evaluate the global strategies that FDIs incorporate while making expanding business or investing into foreign economies

To investigate the FDIs PESTEL position in the foreign countries and what strategies ensure their safe investment whilst the other factor remain constant

To analyse the FDIs impacted by internal factors and external factors

Evaluate the FDIs impact on the local stakeholders and how local investors have developed relationship with the FDIs? Does it benefit or harm their business?

Literature Review

History

After the World War II the world of foreign direct investment was dominated by United States. The world suffered from the destruction and caused the lowering in performance of the economies as their resources went wastage in the war times. The US accounted for the renewal strategies of the FDIs investment in the foreign countries. This took place majorly in between 1945 and 1960. Since those times the FDI has become the spreading phenomenon in the world.

FDI has grown in importance in the global economy with FDI stocks now constituting over 20 percent of global GDP. The FDI actually indicate the level of progress that take place throughout the process. This actually measures the incremental growth of economy and the process of globalization. However the FDI in some countries stand as the major proportion of their GDP.

Foreign Direct Investment (FDI)

The FDI defined by the American Heritage dictionary suggest that the investment is made in one country from another country for the purpose of rational benefits to the investor and the investee. Through this the both of the companies get benefited in the large scale. The foreign Direct Investment is the major source of finance of the entrepreneurs and the host countries. The FDIs decision to move abroad and investing in the host countries companies may have several impacts and implication that may incur and may change the aspects of doing business in the foreign countries. The research suggests that the foreign countries have different factors that are attached with their economies thus those factors may have the implications over the internal factors of the FDI entrepreneurs. Therefore this become significant factor in which the investors and the entrepreneur take careful measures to gauge the situation of the host country. The external factors may have some time negative and positive impacts. Thus the underdeveloped countries have factors such as the political, legal, cultural, social and natural factors that may have several impacts on the investment decisions of the company.

thus the key is that the investing corporation take up 10 percent of voting power of the new venture. The History of FDI is the evident that the United States was the leader of FDI investment entrepreneurship until the World War II.

However the new era of business suggests the significant growth in the Foreign Direct Investment. This has generated a little bit opposition in hosting countries such as the local political pressure groups and the labour unions.

However the local communities remained concerned that the FDIs capture the local people job and they are tend to capture the resources for the less amount of the money that they pay to the people. Thus the people believe that the local infant industry is eliminated or cannot run the operation and become dead industry which has its significant impacts over the local in fact industry. in this way the infant industry become dead industry and this do not provide opportunity to the local industry to grow. Thus the country's markets, populations, production and demand and supply mechanism becomes dependent upon the FDIs in the larger perspective. in addition to this the local social groups and people put the pressure as they believe that the FDI consume resources and they do not show the care for the environment as the dump the garbage in the land and this pollute the eco system.

In this regard to address the concerns of the countries and to resolve the issue the legislation was introduced in 1970s that would put an end to the

tax incentives of FDI. However this tactic did not stop the FDI expansion of operations.

However the advocated of the idea of attracting foreign direct investment in the economy seems to support the idea. They argue that the FDIs bring the investment in the country and provide the consumer better value by producing cost competitive products through which the prices are turned down and the higher quality is offered than the competitors local produced. The international nature of the business is encouraged through the FDIs. The business has become possible to take place in international markets through the foreign investments in the international borders. Thus this is evident that the business has taken growth internationally through the entrepreneurs who are interested to invest ion the foreign countries.

Barney (1991) believes that the corporations from some of the countries lead the world’s economy and remain interested in the countries where the commercial markets provide them open opportunities. However the Chorn (2004) believes that the commercialism is not the only reason but also the natural and other resources remain the point of attraction for the FDIs. According to Chorn (2004) this is the external factors and the infrastructure of the host country remain the factor of the attraction for the Foreign Direct Investment in the country

The statistics suggests that the dollar investment in developing countries increased 40 times over in less than 30m years. However it is believed that the host countries welcome the FDI because of their investment in their comparatively smaller economies. Thus this helps the economies to gain

some comparative advantage through the investment in the countries. This approach suggests that the countries get benefit from the investment in the economies. This provides positive impact on the economies rather than hitting them negatively.

The foreign direct investment is a measure of investment in different sectors of the economy.

The foreign direct investment provides the ownership of the assets to the investing entrepreneurs. However the investor's giant the competitive advantage through the ownership of productive assets. On the other hand the Johnson (2005) observes and provides empirical view in the book, ' Exploring Corporate Strategy' that the Globalization has become the major factor of today's business world and international business through the help of FDIs decisions to operate abroad.

The FDIs involve in the participation in sector of management, Joint-venture, transfer of technology and expertise. Through this the hosting country and the investing organizations both get benefitted through mutual share of resources.

The FDI create a relationship in between two countries or in between the investor and the investee. This relationship of mutual interest usually remains for the long period of time. Thus both the parties are mutually benefitted through the venture of entrepreneur.

Product Life-Cycle Theory

According to Ray Vernon the Product Life-Cycle theory is the concept when the products moves to lower income countries automatically through he process is called the Product Life Cycle Theory. Further he re-asserted the notion that in similar manners the FDI flows to the developed countries for the advancement and the innovation process when the developing countries proceed through the right time. In this way the mass production process begins and the innovation and the technological transfers take place. Through this way the hosting country and the investor both achieve benefits.

The Eclectic Paradigm

Distinguishes between:

Structural market failure :

The Structural market Failure is the situation when the external condition gives rise to the system of the monopolistic market system.

Transactional market failure :

The traditional market failure suggests the lowering of prices than the prices than the cost than the standards set in the internalization.

The Dynamic Capability Perspective

The firm intend to produce the competitive resources that can achieve the competitive advantage.

The lack of resources or the expertise or the knowledge can be the cause of the barrier of the organisation. this may hinder the organisational level of the production or expansion.

the multinational environment requires organisation to improve and use the capacity and the expertise to produce the desired level of quantity and the quality of the goods and services to achieve the competitive advantage.

The investing firm intend to provide the units that provide the excellent services or the production units that can produce the best quality. However this process ultimately benefits the organization in the large extent. However the firm develop the excellence to achieve the core competencies to the host environment.

Monopolistic Advantage Theory

Entrepreneurs can produce in the lower cost than the host country's producers this tends to provide the monopolistic advantage to the organisation. However this may hinder the host country's infant industry.

Monopolistic Advantage comes from:

Superior knowledge – production technologies, managerial skills, industrial organization, knowledge of product.

Economies of scale – through horizontal or vertical FDI

Internationalization Theory

Internalisation process take place when the host countries capability of managing markets, supplies, production facilities and efficiency fails then the FDI are given more power to create the process the business process.

Advantages

Less or no negotiating costs

The costs on moral hazard are avoided.

Possible cost on litigation process is avoided.

No Government intervention with in the business process.

Strong hold over the supplies

Strong hold over the market outlets

Classification of FDIs

The FDI are classified according to their nature of investment in the business process.

Outward FDI: This kind of FDIs receives government support in the form of tax incentives and the various other kinds of flexibilities. Thus the FDI becomes more secure kind of investment as associated with risk. Outwards FDIs are the foreign direct investment in abroad.

Inward FDIs: the inward FDI are foreign direct investment which is gathered through other tools such as the economic factors of the host economy can be

the major cause of attraction for the FDI. Further this may include the interest loans, tax breaks and subsidies.

Other Forms of FDI

Vertical Foreign

Other forms may include the Vertical Foreign Direct Investment where the multinational companies own the share of foreign company. Through this way the multinational enterprises enter into another economy.

Horizontal foreign direct investments take place when the MNCs carry out operations in different nations.

Methods of Foreign Direct Investments

The foreign direct investment can have different ways to enter into the market foreign market place. However this requires about 10% from the FDI company for acquiring the voting power. The following methods are for the FDI process;

Subsidiary or company

By buying shares of other company

By conducting merger and acquisition of an enterprises.

Joint Venture

Countries always develop the methods and ways to attract the maximum foreign investment in their countries. The following are popular methods to attract foreign direct investment.

Table Ways to attract FDIs

Entry Methods

The FDI can enter into the foreign market through different methods. The most considerable methods are as follows;

Table FDIs Methods of Entry

Investment approaches

Table Investment Approaches